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GENERAL

1. Yugoslav-Italian relations improve--Italian Foreign Minister Sforza has informed US Embassy Rome that he is pleased with Tito's 30 July communique stressing the need to improve relations between the two countries, particularly in the economic field. Sforza added that as a result of the communique Italy is now ready to sign the trade agreement with Yugoslavia, negotiations on which had been suspended following Tito's moves toward incorporating the Yugoslav zone of Trieste into Yugoslavia.

Meanwhile US Ambassador Cannon in Belgrade reports that in an interview between Tito and the Italian Minister in Belgrade Tito referred to the question of the Yugoslav zone of Trieste as "a little matter if other things could be worked out." Cannon believes that Yugoslavia's economic straits are responsible for Tito's attempt to obtain an immediate Italian trade agreement, while Yugoslav fears of a Soviet sellout on Trieste are impelling Tito to leave the way open for broader negotiations with Italy.

EUROPE

2. AUSTRIA: Agreement reached on plan for army--General Keyes, US Commander in Austria, reports that the two major Austrian political parties have reached agreement on a plan for the future Austrian army. According to Keyes, the army will be based on universal military service and will have an initial strength of 20,000 to 30,000, composed mainly of men with German army experience. (Four-power agreement has been reached to allow Austria an army of 53,000 under the proposed treaty.) Keyes says that the two major parties have agreed to seek permission from the occupation powers to

State Dept., OSD reviews completed

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begin the organization of the army as soon as the treaty is signed, so as to be able to put the full initial force in the field when occupation forces are withdrawn. Keyes adds that the Austrians are now preparing a list of materiel requirements, which will be ready by the time the US Joint Chiefs arrive in Austria.

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